

**Hong Kong Retail Management Association
Submission on 2021 Policy Address Consultation**

16 August 2021

I. Introduction

1. The Hong Kong retail industry experienced the longest and deepest recession in record for more than two years by now because of the successive hits inflicted by the social unrest and the COVID-19 pandemic.
2. Despite the Government's various assistance measures, many retail categories are still facing survival issues as the prospect of a full recovery remains somewhat distant due to the fluctuating pandemic situation and zero inbound tourism.
3. The Association would like to take this opportunity to provide an update on the retail market outlook and to present recommendations on both near and mid-to-longer term measures to the Chief Executive for the 2021 Policy Address.

II. The Retail Market Outlook Remains Pessimistic

4. For the first half of 2021, despite the total Retail Sales Value (RSV) increased by 8.4% year-on-year, the nominal growth was a result of the extremely low base in 2020. When comparing to a normal first half of 2019, the RSV registered a decline of 28% or even 30% against that of 2018.
5. The Government's Electronic Consumption Voucher (ECV) Scheme commencing in August is expected to bring certain positive impact to the RSV especially in the latter part of the year. However, the overall RSV is still far below the pre-recession level due to frozen inbound tourism, which constituted about 30% of the total RSV in normal days.
6. For the whole year of 2021, the Association expects the RSV will only register a mid-to-high single-digit growth, representing virtually a decline of about 30% from a normal year of 2018.
7. The prospect for 2022 is clouded with uncertainties. Given that the borders remain closed and there is no growth impetus, the retail industry is expected to fall back to sluggish state when the ECV Scheme ended early next year.

III. Recommendations: Near-term Measures

A. Implementing a Safe and Progressive Approach to Reopen Borders

8. As the pandemic would probably prevail for some time, we urge the Government to enhance pandemic control in a holistic manner with pragmatic strategies and measures, and to strive for herd immunity as early as possible.
9. The vitality of HK economy depends largely on international interflow of visitors and economic activities. We deem the immediate paramount mission for the Government is to implement a safe and progressive approach to reopen the borders as early as possible, especially with the Mainland, which is crucial for retail business recovery.
10. Due to the unpredictable nature of the pandemic, the Government may prioritize the return of visitors by nature, preferably including business visitors as a priority batch amongst others.

B. Considering the Re-launch of Electronic Consumption Voucher (ECV) Scheme in 2022

11. The launch of ECV Scheme has created a positive spending sentiment in the community and is expected to serve as a catalyst for stimulating local consumption. However, the Government should gauge the impact of the ECV on bringing business to the hardest hit livelihood sectors like retail and catering.
12. With an anticipated dim market outlook for 2022, we urge the Government to seriously consider to re-launch the ECV Scheme while with further refinements on the benefitting sectors, for example whether or not to include the transport sector.
13. The Government should learn from the ECV this time to improve the application of e-payment gateways in the following areas:
 - a) The e-payment operators should be urged to improve their service performance, user friendliness and effectiveness, paving the way for similar schemes in future.
 - b) The delayed payments from Stored Value Facility (SVF) like Octopus which affect the cash flow of SMEs should be addressed in order to encourage a wider adoption of SVF.
 - c) There is also room for the e-payment gateways to reduce their commission, especially Octopus which is on the high side.

C. Preventing a Rapid Surge in Retail Rental when Borders Reopen

14. Since the social unrest and the outbreak of the pandemic, many landlords have been renewing leases and/or granting new ones with relatively shorter period

than the normal days. And there is an apparent tendency that the landlords are preparing to raise rents once the border reopens.

15. However, it is worth noting that the reopening of borders would not immediately lead to a rebound in the inbound visitor numbers due to irreversible habit changes and the tarnished image of HK among the Mainlanders. The industry anticipates that even with the return of visitors, the retail sales situation will not resume to the pre-pandemic level.
16. As the industry will take a much longer time to recover from the recession and the negativities, we urge the Government to provide due assistance or measures to ensure that the landlords would not increase rents at an unreasonable rate as soon as the borders reopen. Otherwise, another wave of shop closures would be unavoidable.

IV. Recommendations: Mid-to-longer-term Measures

A. Rebuilding Confidence amongst Hong Kong People

17. The social unrest and the prolonged pandemic have severely dampened the confidence, unity, and sentiment of HK people. Up till now, the Government has been working diligently to restore normalcy and vitality of the society.
18. However, in the mid-to-longer term, it is of vital importance that the Government should step up its best efforts to rebuild the confidence of HK people on all fronts, and to inject more positivity and hope into the society especially to our young people.

B. Bringing HK Retailers to the GBA to Benefiting from the Central Government's "Dual Circulation Policy"

Orchestrating Policy Support to Retailers

19. The Government should consider setting up a high-level industry task force including representatives from leading retail associations to orchestrate policy support to assist HK retailers to capture the vast opportunities brought by the Central Government's top initiative of "Dual Circulation Policy" (DCP).

Developing the GBA Market as Top Priority

20. Under the DCP, the GBA will not only be the immediate market but also an important springboard to the vast Mainland market for HK retailers. The Government should work with retail associations to devise fast track policy to support HK retailers' early market entry into the GBA.
21. The Government should provide first mover advantages such as subsidies, tax concessions, funding schemes to retailers who wish or have already established foothold in the GBA and give inducement to operators to improve logistic efficiency when moving goods from HK to the Mainland.

22. The HK Trade Development Council (HKTDC) should target retail as a top priority industry in its new initiative of the one-stop “GoGBA” platform and provide multi-faceted support to retailers to expand to the GBA market.

Facilitating a Setup of Online Business Platform to Serve Mainland Customers Under “Individual Visit Scheme” (IVS)

23. Given the current zero inbound tourism and the rapid rise of online commerce, it is expected that visitor number from the Mainland via the “Individual Visit Scheme” will not be restored to its pre-pandemic level even when the pandemic subsides. As such, it is vital for HK retailers to be able to continuously capture spending of the Mainland visitors via virtual business platforms.
24. The Association has previously expedited with key stakeholders including the HKTDC for organizing an online shopping festival that would especially meet the needs of SME retailers who lack of resources and knowledge to develop their own online business. However, this initiative was regrettably yielded no concrete inroads.
25. In this regard, we urge the Government to aid in the following aspects:
- a) Adopting a holistic approach to support HK retailers to expand their markets, initially targeting the Mainland visitors eligible for the IVS, via both online and offline channels; and
 - b) Organizing Government-led large-scale online cross-border shopping festival(s)/related exhibitions to showcase HK merchandise and its unique attractions.

Leveraging the Duty-free Shopping Hub Recently set up in Major Mainland Cities

26. The Central Government has recently earmarked Beijing, Shanghai, Guangzhou, Tianjin and Chongqing as international consumption center cities (國際消費中心城市) whereby a duty-free shopping hub can be built in each city.
27. The Government may help expedite if HK retailers could be given opportunities and assistance to participate in the development and open retail shops in the duty-free hubs of the earmarked cities; or to cooperate with the Mainland companies to setting up joint venture there.
28. Apart from seeking active participation in this new development, the Government should also initiate measures to fend off potential competitions from these cities, including:
- a) Improve easy-to-buy infrastructure in HK e.g., enhancing HK as a smart city with provision of smart buy map, various up-to-date e-payment modes to reduce retail transaction cost for tourists and stimulate consumption.

- b) Speed up visa application process for the Mainlanders so they can visit HK more frequently and easily.
- c) Lobby the Central Government to increase the personal duty-free amount to match with that of other duty-free cities like Hainan, in order to encourage visitor consumption.
- d) Promote HK's total package of competitiveness and attractiveness as an international city and shopping hub to the Mainlanders.

Promoting Hong Kong Branding in the Mainland

- 29. The appeal of Hong Kong's advantage and its image to the Mainland visitors have been eroding rapidly in the past two years. It is time for the Government to rectify the negativity and promote the distinct differentiation of HK from other Mainland cities.
- 30. The Government should promote HK as a comprehensive destination that is not just for shopping but also for arts, heritage, international cuisines, and culture activities. These elements will bring synergies with the retail industry.
- 31. HK retailers should be given due support to develop more quality and experiential driven shopping experience alongside genuine and quality merchandise, so that the Mainland customers would continue to have confidence and interest in HK.
- 32. The role of HK Tourism Board and the HKTDC should be strengthened for such business transformation and they should work closer together to orchestrate and step-up promoting HK Branding in the Mainland and overseas.

C. Rendering Support to Speed up New Retail Development

Capitalizing on the Rapid Growth of Online Retailing

- 33. The pandemic has revolutionized consumers' buying behaviors and accelerated the growth of online purchase. The Government's latest figure of online retail sales value represented 8.1% of the total RSV, indicating impressive growth of 63.8% in June and 54.9% for the first half of 2021.
- 34. To embrace the new era, it is important for the HK retail industry to speed up its transformation with the Government's forceful support in different aspects as deliberated in the following paragraphs.

Establishing a Designated Government Setup to Support the Retail Industry

- 35. The HK retail industry is a key pillar of the economy. Currently, it employs about 250,000 people, representing 10% of the total workforce; while with 62,228 retail establishments in total, the industry contributes about 3.3% of HK's GPD in 2019.

36. Despite the importance of the industry, there is no specific department within the Government that looks after the affairs, the well-being and development of the retail industry. Most of the industry matters are handled in a piece-meal approach, and this absence of clear ownership within the Government impedes the retail industry development.
37. Successfully transforming the retail industry in the new era hinges on concerted efforts from a wide spectrum of sectors. The Government should designate a specific bureau with mandate to oversee the industry, or to set up an independent, cross-departmental unit to take up the task.

Speeding up Technology Adoption

38. The Government should facilitate technology adoption and digitalization in the industry by providing inducement to the setup of a new retail ecosystem underscored with practical solutions to address retailers' pain points in the process of the unprecedented transformation.
39. The Government aims to develop HK as a smart city. It can achieve so by leveraging the retail industry as a powerhouse that can exemplify to the wider community the advantages of adopting latest technologies, 5G, digitalization, AI, robotics, big data, through retailers' extensive interfacing with consumers.
40. The recent launch of Electronic Consumption Voucher Scheme via the application of key e-payment gateways is an opportunity to further promote technology adoption among retailers especially the SMEs.
41. To facilitate SME retailers, the Government should introduce a one-stop funding solution to replace the current cumbersome process that requires SMEs to apply different funding schemes which in many cases may be serving similar purposes.

Nurturing New Retail Talent

42. In the face of the unprecedented pace of digitalization and technology advancement, the Government should have a holistic plan on projecting digital talents required in the next 10 years including retail. With such a blueprint, HK can nurture required talents through the local education system, and to attract the targeted people from overseas to fill the gaps.
43. The aging population and the recent increase in emigration are aggravating the already talent shortages in HK, not to mention the new skills required in our industry transformation. The Government should render support in the aspects of enhancing industry image as a prospering profession to attract new blood, equipping practitioners with new technologies and skill sets through mainstream education and in-service training.

Setting up Logistics Industrial Park

44. Supply chain and logistics are key to new retail success. Since land is scarce and expensive in HK, the Government should allocate land to set up a Logistics

Industrial Park, which would enable retailers to establish supply chain in a cost-effective manner.

D. Building Hong Kong as a Retail Management Education Hub in the GBA

45. HK's retail industry is renowned for its sophistication and world-class quality talent management. In this regard, the industry can join hands with HK's education providers to contribute to the advancement of talent development in GBA. We believe the said contribution could strengthen the leadership role of Hong Kong among GBA cities.
46. In this regard, we urge that the Government to render policy support and practical assistance in the following areas:
 - a) To facilitate our retail Qualifications Framework (QF), a comprehensive blueprint for talent development at all levels and functionalities to be promoted in the GBA.
 - b) To enable HK education providers, especially renowned universities to set up campus in GBA with retail management as a key discipline.
 - c) To facilitate the interflow of retail talents between Hong Kong and GBA via visits, in-service workplace attachment, and exchange programmes.
 - d) To promote HK's signature retail recognition schemes and award programmes to the counterparts in GBA.

E. Introducing a Legal Framework to Rectify Hong Kong's Distorted Retail Rental Market

47. The crisis in the last two years had highlighted the tremendous imbalance of power between landlords and retailers. Despite the crisis, the retail rent in Hong Kong is still amongst the highest in the world.
48. The Government has the responsibility to rectify the distorted situation and to foster a healthy retail market with rental at reasonable level. In doing so, it will help improve the unduly high operating cost primarily due to high rental, stabilize the labor market, and more importantly enhance HK's overall competitiveness.
49. The Government should benchmark other developed economies to work on a legal framework that would provide commercial tenants with due and reasonable protection, especially during adversity and for the long term.
50. This may involve some form of regulations on commercial rental and related fees charged by landlords, such as the management fee, promotion fee, and air-conditioning charges via the proposed regulatory framework.

V. Conclusion

51. The retail industry is one of the hardest hit industries during the past two years and more. We sincerely hope that recommendations deliberated above would help the Government to formulate more focused measures to assist our industry to rejuvenate and transform amid prevailing hardships.
52. The Association is committed to render full support to the Government to reviving the economy and rebuilding hope and confidence in Hong Kong in the time ahead.

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